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Charting the Course for Cotton

*Adapted in the Division of Information from an address by Henry T. Wallace
 Secretary of Agriculture, before a meeting of farmers at
 Memphis, Tenn., October 1, 1937*

Secretary Wallace suggests a "Sensible middle course" to serve the best welfare of the Cotton Belt:

- First**, this course would continue such moderate adjustment of production as would preserve and build up the fertility of the soil and still allow production of at least as much cotton as the markets of this and other countries have been accustomed to take.
- Second**, it would encourage greater consumption of cotton in ways that would raise the standard of living of all our people.
- Third**, it would provide for an increased production of home food and feed crops.
- Fourth**, it would serve notice to the world that the United States intends to keep its place in the world cotton market and it would supplement the market price with payments to cooperating farmers on an allotted cotton-production goal.
- Fifth**, it would provide authority for loans to prevent price collapse.
- Sixth**, it would provide authority for marketing quotas on the entire crop, to be used after a referendum of producers in time of emergency as a further protection against disaster from crushing surpluses.

What Can Be Done for the Cotton Belt?

EVERYONE in the South remembers the great lift in spirits the emergency cotton campaign gave to the South in the summer and fall of 1933. In a very real sense the South led the country out of depression. One has only to go back to the financial reviews of 1933 and look at the business maps of the country to see that the sun of business recovery was rising in the South even while dark depression still prevailed elsewhere.

Since that time the economic condition of the South has kept on improving. One might think, with the 1936 returns double what they were in 1932 and with 1937 returns promising to bulk equally large in total, that the 1933 spirit of optimism in the South would be intensified.

Yet there is today in the South a widespread feeling of uncertainty. There is a feeling that the measures which have sufficed to bring income gains in the last 4 years will not produce further gains. A vast amount of thinking is being done by southern farmers and farm leaders, as to the best course to follow from here on.

Under the stimulus of strong consumer demand in this country and in the rest of the world, the price of cotton climbed last winter to around 14 cents, the highest level in nearly 7 years.

World cotton supply excessive.—And then, this season things began to happen to cotton and the cotton price. For one thing, exceptionally good growing weather in the American Cotton Belt gave promise of the largest yield per acre in history. Farmers felt good about that, because a farmer always likes to see a big crop on his own farm. But when they saw the price of cotton beginning

to slip off, they did not feel so good. They began to wonder if a bumper crop of 17½ million bales was going to bring them to disaster again. Another thing that happened was big production in other countries. These things together have brought prospects for a total world supply of 47 or 48 million bales. In spite of the fact that last year's world consumption, 30 million bales, was the highest on record, this big supply will give the world a carry-over of all cotton of 17 or 18 million bales, about the same as the record carry-over of 1932. In response to these big supplies, the price of cotton both in this country and abroad has fallen sharply. The American market price, which 6 months ago had climbed to 14 cents, has gone to around 8 cents a pound.

When we look at the foreign cotton production picture, we find that long-time trends toward increasing production have continued in the last 5 years. This year's production of foreign cotton will probably be 8 or 9 million bales larger than foreign production 5 years ago. The supply of foreign cotton is 10 million bales higher than it was in 1932. Foreign consumption of cotton has gained too, but foreign production has gained twice as fast. That fact, plus the fact of our own big production this year, explains why the world supply of cotton is now the greatest on record. That fact explains in part why foreign consumption of American cotton, according to unofficial estimates, slipped off to around 5½ million bales for the past crop year.

Now I realize that those who try to discredit the Government's AAA programs would like to have the country believe that the entire expansion of cotton production abroad has been caused by these programs.

When we face the facts we find it is true that part of the expansion of cotton production abroad has been due to the stimulus of prices higher than they were a few years ago.

The American cotton adjustment program, by affecting the world supply, affected the price both in this country and abroad. In addition, the 12-cent loan for a time in 1935 retarded the flow of American cotton into the world market, and caused foreign buyers to begin to look elsewhere for their cotton. The foreign producing countries where the response to price appears to have had the most effect on production are India and Egypt, with some of this effect also in Brazil.

Why foreign production has expanded.—But we must look at all the facts in the face. These facts show that in Russia, China, Uganda, and to some extent also in Brazil, governmental policy is to expand cotton production regardless of what we or any other countries do; that Russia and China have been doing everything they can to increase production of cotton simply for use in their own countries; that the four countries I named account for 80 percent of the increase in foreign cotton production of the past 7 years; that in Brazil it is not just the price of cotton but the extremely low price of coffee—Brazil's principal money crop—in relation to cotton that has caused some shift from coffee to cotton; that much of the increase abroad has come from higher yields per acre; that our tariff policies have deprived certain countries, notably Germany and Italy, of the exchange with which to buy the American cotton they have wanted to purchase; and that the trade policies followed by many other countries have led to barter arrangements which prevent the unimpeded flow of commerce to which the world once was accustomed.

Summing up the whole thing, we might say that rising cotton prices following 1932 have been partly, but only partly, responsible for increases in cotton production in foreign countries. The trend toward increased cotton production in foreign countries has gone on for a half century. Twenty-six years ago in 1911, American cotton comprised about 60 percent of all cotton consumed abroad. Ten years later in 1921 our share had fallen to 50 percent and in 1931 to 45 percent.

Just the continuance of this long-time trend would have carried our share down to 37 percent in 1936. Actually, our share was 32 percent for that same year and 23 percent for the crop year recently ended. Many forces outside this country have operated to increase the rate of this decline and it is clearly evident that the American cotton program was only one of several factors in expansion of foreign production. But the existence of this foreign expansion, whatever the cause to which it may be ascribed, is a fact to be considered carefully in shaping our future cotton policy.

Domestic consumption increased.—At the same time that the foreign part of the cotton picture has grown more disturbing, the domestic part of the picture has given reason for encouragement. Consumption of cotton in this country in the crop year recently ended was nearly 8 million bales, the largest in history, and 2,300,000 bales greater than the average of the preceding 7 years. This increase in consumption has completely refuted the argument that American consumers benefited from the extremely low price of cotton and that they were injured by A. A. A. programs to increase the cotton price. The fact is that American consumers used nearly two-thirds more cotton last year when prices were reasonable than they did when cotton was 5 cents a pound. Although another depression like the last one might again cut cotton consumption down by a third or a half, it is evident that in a time of good business we can partly offset decreases of exports with increased consumption at home.

Cotton situation summarized.—So here is a summary of the cotton situation:

1. Increased domestic production due to a moderately increased acreage and a greatly increased yield—a prospective $17\frac{1}{2}$ million bale crop produced on 34 million acres.
2. Increased foreign production following a consistent long-time trend—total foreign production 19 million bales, or 8 million bales more than in 1932.
3. Increased domestic consumption and increased foreign consumption rising to the highest levels in history, but lagging behind domestic and foreign production. Domestic consumption nearly 8 million bales and foreign consumption 23 million bales.
4. The carry-over of American cotton increasing again because of the large crop in this country. Prospect of 8 or 9 million bales next August compared with a little over 6 millions August 1, 1937.
5. The prospective world carry-over of all cotton—17 or 18 million bales—by August next year about equal to the largest in history.
6. The American farm price of cotton below 8 cents a pound, compared with a depression low of 5 cents and a post-depression high around 14 cents.
7. Foreign consumption of American cotton down a million bales, from 6,400,000 in the year ended July 31, 1936, to an estimated 5,300,000 in the year ended last July 31.

I believe there is no difference of opinion about the facts of the cotton situation. There may be, and is, difference of opinion about what course should be followed.

Dangers of price maintenance.—One school of thought would make price maintenance the paramount objective of our cotton policy. This school of thought would subordinate all other considerations to this one aim. Those who believe market price is all important would use Government loans in an attempt to peg the price of cotton. If loans did not hold the price up to the desired level, they would have the Government purchase the cotton outright at the fixed price.

Loans have their place at times in a constructive cotton policy. But if they are used for any length of time to keep the market in this country above the prices at which producers in other countries are willing to sell, they have two results that in the long run are very bad. One is that the Government gets a huge supply of cotton. This cotton is difficult to move into market channels without upsetting prices and ruining the farmer. The other bad result is that while the loan is in effect cotton is prevented from moving freely into export because foreign cotton which is unaffected by any such loans can be had at lower prices. The 10-cent loan of 1933 was useful in giving farmers rather

than speculators the advantage of a price rise. The present 9-cent loan should also serve a useful purpose of helping to check the price decline. But loans on cotton are like strong stimulants—if used to excess or in the wrong way they may kill instead of cure.

Some of those who advocate such loans are consistent in that they go farther and advocate a rigid type of production control to back up the loans. If we have high loans, then there is no question that that type of control should accompany them. Otherwise the Government would let itself in for tremendous loss. But I wonder if people who advocate drastic limitation of cotton as a means of maintaining a price materially above what it would be otherwise have really thought the matter through.

The supply of American cotton is the predominant factor in the world price of all cotton. The price of foreign cotton moves in unison with prices of American cotton. In trying to affect cotton prices through control of domestic supplies we are really trying to influence world supplies and prices. If American cotton constitutes one-half the world supply, then we have to make much more curtailment to bring a given change in price than we would if we produced the entire world supply. If we produced only one-third of the world supply, then we would have to make still more curtailment to bring a given price change. As we retired more and more from the world market, our decrease in production would have smaller and smaller effect on the world price.

Might mean giving up export market.—With world conditions what they are, American cotton producers apparently could receive parity price—16.7 cents a pound—in the market for their cotton only if they were willing to say goodbye to their export outlets and go on a domestic basis. At such a price competition from rayon and other fabrics would probably increase to a point which would make it impossible to pass into domestic consumption more than 7,000,000 bales. At average yields that amount could be produced on about 18 million acres. Suppose we did this. Disregarding the value of the cottonseed, such a crop would be worth 130 million dollars less than the present crop at 9 cents a pound. If producers were asking consumers to pay the 16.7-cent price, they would not be likely to get subsidies besides. So this extreme emphasis on price at the expense of volume would mean a substantial loss in cash income to the South.

Even if the lower costs of producing such a small crop offset the loss in gross income to the producer, other social and economic problems would arise which would be almost unbearable. Nearly one-half the land and labor now devoted to growing this year's cotton would not be needed. Would this land and labor be used for the growing of other commercial crops, to compete with other farmers elsewhere in the country? You can imagine how long such a restrictive program backed by Government action would last if this excess land and labor were so used. Or suppose it were held out of commercial production. What would become of the excess labor suddenly turned loose? Could jobs and livelihood be suddenly found in industry for several hundred thousand of these workers no longer needed to grow cotton?

The fact is that there are practical limits beyond which adjustment of cotton production cannot be pressed.

Larger farm income needed.—The fallacy of the extreme school of thought I have been describing is that in putting price foremost it neglects the factor of income. What a farmer has to spend at the end of the season depends not alone on price but on how much he can sell at that price. What the cotton producers of the South need above all else is a larger income and that means a reasonable volume of cotton as well as a reasonable price.

Now there is another school of thought in the South which favors abandonment of all programs having any restrictive influence on cotton production. Among those holding this view are the people engaged in the business of handling or processing cotton, who benefit from big volume.

Dangers of unrestricted volume.—This second school of thought would place its emphasis just as exclusively on volume as the other school would place it on price.

Let us see where this course would lead. Suppose we had 45 million acres of cotton. Without unusually high yields, the crop might run to 17 or 18 million bales every year. If crops like that were produced each year, no one knows exactly how much cotton would move into consumption at home or abroad, or what the carry-over and price would be. Some spokesmen for this school argue that if this country would only demolish its tariffs, everything would be fine and we could sell in fair exchange all the cotton we could raise.

For 18 years, first as a farm editor and then as Secretary of Agriculture, I myself have been a consistent advocate of lower tariffs. I have been a strong advocate of the reciprocal trade agreement program, which is helping to free the channels of our foreign trade and which in the long run should pay big returns. But with the world organized as it is, a quick solution of the cotton producers' difficulties through tariff reform is not within the realm of practical possibility. To tell the cotton producer that all he needs to do is to work for lower tariffs and that in the meantime he is not entitled to other help is to condemn him to a state of hopeless misery.

The chances are that continued big production in the United States, along with big production in other countries, would push prices down toward the 5-cent level of 1932, or even lower. At 5 cents a pound, 16 million bales would bring only 400 million dollars. That would mean a return of all the suffering and privation which the farmers of the South endured in the darkest days of the depression. That would mean another severe shock to the business of the whole Nation. So it is evident that disaster can come from following the second school of thought as well as from following the first. Exclusive reliance on volume and total neglect of price would be a dangerous course to take. We do not want ever again to go through the bitter experience of 1932.

What can be done for the South?—Over the years, neither one of the extremes that I have described will help the South. We must find, if we can, some other way which will give the South the increased income that it needs.

Well, what about it? What can be done for the Cotton Belt? Can *anything* effective be done?

I believe that something *can* be done, and something *will* be done. I believe the best welfare of the Cotton Belt lies along a middle course which avoids both of these extremes. Let us try to mark out the sensible outlines of this middle course.

The middle course I have in mind would seek to give the farmer the greatest possible income from cotton.

First, this course would continue such moderate adjustment of production as would preserve and build up the fertility of the soil and still allow production of at least as much cotton as the markets of this and other countries have been accustomed to take.

Second, it would encourage greater consumption of cotton in ways that would raise the standard of living of all our people.

Third, it would provide for an increased production of home food and feed crops.

Fourth, it would serve notice to the world that the United States intends to keep its place in the world cotton market and it would supplement the market price with payments to cooperating farms on an allotted cotton production goal.

Fifth, it would provide authority for loans to prevent price collapse.

Sixth, it would provide authority for marketing quotas on the entire crop, to be used after a referendum of producers in time of emergency as a further protection against disaster from crushing surpluses.

1. Soil conservation first essential.—As to soil conservation—let us agree that for the South to have any chance whatever to attain a satisfactory income, the fertility of its soil must be preserved and built up. Cotton is a crop which when grown on the same land year after year without other crops seriously depletes the soil and exposes it to erosion. By following systems of farming and crop rotations that place conserving crops on the land part of the time, the fertility of the soil may be effectively conserved and improved. The exceptionally high prospective yield of 249 pounds to the acre this year is probably due in part to the A. A. A. conservation program. In competing with the rest of the world, the cotton farmer has reason to strive for greater efficiency and lower costs of production, and, as you know, one of the best ways of lowering costs of production is to increase the per acre yield.

Under the conservation programs cotton acreage in 1936 was held to 31 million acres and in 1937 to 34 million acres. At the same time there have been striking increases in such soil-conserving crops as lespedeza, vetch, Austrian winter peas, and other legumes, which in the long run will make it easier for our producers to compete with foreign producers.

Cotton acreage goal for 1938.—The 1938 program includes a cotton acreage goal of around 30 million acres or less. If domestic and foreign consumption takes 13 or 14 million bales, the carry-over by August 1939 might be around 7 million bales or about 50 percent greater than normal.

This goal was arrived at after extensive consultation with farmers, committees of farmers, and crop and soil experts connected with the agricultural experiment stations in the South, and it represents the consensus as to what cotton acreage in 1938 would best serve the needs of the South, taking into account good farming and domestic and foreign demand prospects. If we attain this goal in 1938 the carry-over of American cotton on August 1 of 1939 will be greater than normal and greater than it was this August 1. No one can fairly accuse us in our 1938 goal of practicing scarcity economics. Our goal for 1938 means conservation economics and the economics of balanced abundance.

On the production side, I believe the aim of the South year after year should be to offer domestic and foreign markets a stable supply of cotton in line with growing domestic and foreign requirements. This means that attention must be given to the carry-over as well as to the current crop. Supplies are excessively large now, but we should remember that the years 1921, 1922, and 1923, when our crops averaged only about 9 million bales, were the starting point for many of our present troubles. Our small exports and high prices stimulated cotton production here and abroad, and caused expansion for which our farmers paid dearly later on.

Ever-normal supply advocated.—This suggests that an "ever-normal warehouse" for cotton—a counterpart of the "ever-normal granary" for food and feed crops—might be very useful to the South and the Nation in averting extreme fluctuations of supply and price. With ever-normal supplies, we could apparently provide our domestic and foreign customers with about 13 million bales of cotton year after year, or more if they needed it, and build up our soil fertility, too.

2. Encouragement of increased consumption.—The second part of our Cotton Belt program should be the encouragement of increased cotton consumption, especially in this country. This logically goes along with a conservation program which brings more efficient production and opens the way toward increased balanced abundance.

You in the South have been much interested in the Department of Agriculture's program of experiments to find new uses of cotton, in road building and other ways. These experiments are bound to take time and to bring results

only slowly. It is true that the impact of technology upon agriculture frequently brings temporary consequences which are exceedingly severe. But we cannot look at the amazing developments in all fields of technology without realizing that the potentialities for good in the long run are very great.

In the meantime the big jump in domestic consumption of cotton that has come with business recovery shows what a stake the cotton producer has in consumer purchasing power. Many people perhaps are able to buy all the cotton goods they would like, and yet we know that there are millions of people in the low-income groups both on farms and in the cities who still have to scrimp on the cotton goods they buy. They are in the one-third of our population that President Roosevelt has declared are "ill-housed, ill-clad, ill-nourished." National policies which increase business activity and employment and spread buying power among these groups are bound to be of vital help to the growers of cotton. In the same way, trade policies which stimulate employment and buying power in other countries help to bring demand for our cotton abroad.

3. Home food and feed crops.—The third point we should keep in mind in marking out our middle course for the Cotton Belt is the importance of devoting part of the land to home food and feed crops. The real objective of our farm program is a higher standard of living for farm families. On farms where an insufficient amount of livestock products and vegetables is consumed to give a complete and balanced diet, an increased portion of the land ought to be devoted to food and feed crops. Surely to put a few acres to such use instead of to one-crop cotton production is to move in the direction of the balanced abundance that all of us would like to see.

4. Payments to offset tariff handicap.—Fourth, I believe we must find a means of further increasing the producers' income on an allotted production goal.

Parity price for cotton in the world market place is a goal impossible to achieve under present conditions except at terrific cost. And yet the Cotton Belt needs and deserves something better than to be left to shift for itself in the competitive world markets. For a full century the cotton-producing South has suffered a handicap from the protective tariff policy which the industrial interests of the North and East have imposed upon it. For a full century the people of the South have been forced to a lower average standard of living than they would have had if the tariff had not been in effect.

Since the tariff is so deeply rooted in our economic system that to eliminate it is a practical impossibility, simple justice demands that the Nation find some way to make up for the handicap that the tariff imposes upon the South. There is only one way to do this, and that way is through payments which would give cotton producers a higher return on an allotted production goal. Such payments ought to be made contingent on participation in the A. A. A. conservation program. The method of making the payments on the basis of an allotted cotton goal would improve greatly upon the so-called domestic allotment plan which would provide payments only on the domestically consumed portion of the crop. Basing the payment upon an allotted goal, which would be larger than the domestically consumed portion of the crop, would mesh this part of the plan each year right into the cotton goal provisions of the soil conservation program. It would encourage cooperation by assuring fair treatment for the cooperating farmers.

The price adjustment payments authorized by Congress on this year's crop will help to serve this purpose, but the South would meet difficulty if it tried to get large subsidies from the general Treasury year after year because of the necessity of approaching a balanced budget and because similar demands from other regions would be certain to arise.

Might again let commodity bear load.—In view of these difficulties of financing an adequate cotton program, it may be that the farmers of the South will want to ask Congress to go back to the principle of letting the commodity itself bear the load of providing the needed funds.

The processing tax on cotton in effect under the Agricultural Adjustment Act made the cotton programs nearly self-financing for 2½ years up to the time the Supreme Court nullified the tax and handed millions of dollars of tax money over to the processors. If a processing tax is considered favorably as a source of funds to finance a cotton program, the tax should be moderate in amount. Consumers should be protected against violation of the principle of fair exchange value. As under the old A. A. A., the market price plus the tax should not cause the consumer to spend a greater percentage of his income for cotton than was the case in the years before the war. A reasonable processing tax on cotton, even though it slightly raises the price to consumers of cotton goods, would be fair and equitable, in view of the higher costs paid by cotton producers as a result of the tariff. And thousands of workers of the cities would avoid being thrown out of their jobs just because the people of the South were broke.

We should recognize that there is probably a limit beyond which, for practical reasons, a processing tax on cotton should not go. It should not be so high as to cause rayon or other competing products to be substituted for cotton on a large scale.

But unless the Cotton Belt is to resign itself to a scanty income from cotton as its permanent fate, some continuing source of revenue to provide funds for price adjustment payments to farmers—presumably only to farmers cooperating in the conservation program—seems to be necessary. Much as some people may dislike to face this fact, it cannot be dodged. Perhaps the processing tax offers a way out.

5. Stop-loss loans.—Suppose through some unusual circumstances—war or depression or a series of world-wide bumper crops—the world carry-over of American cotton builds up again to the point where utter price collapse is threatened. Should the United States Government have power to take steps to avert such a collapse, not only for the benefit of cotton producers but to protect the entire trade structure of the Nation? I believe it should.

One of these steps, the fifth point in the program I have outlined, might take the form of stop-loss loans, to be made when the cotton carry-over reaches such proportions as to threaten complete demoralization of prices.

6. Marketing quotas.—The other possible step—provision for which would be the sixth and last point in the program—would be the establishment of marketing quotas, to be imposed only in an emergency and only after an overwhelming majority of the producers had expressed themselves in favor of such action.

Such a six-point cotton program would be a sensible and progressive development of the cotton programs of the last 4 years. It would serve the South and in so doing would be in the interests of all agriculture and in the national interest. It is a program for which we all can fight.

The more closely we grapple with the needs of farmers in the different commodity groups the more we realize that the farm problem of the entire United States is, basically, one problem. It is the problem of maintaining farm income and the fertility of the soil, so that farm families may have the good living to which their labor entitles them and may contribute to the good living which the families of all workers, in cities and towns as well as on the farms, ought to have. In moving toward this objective the farmers of the South and of the West, of the North and of the East, should go forward shoulder to shoulder in a common front.